

Message Text

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20

ACTION EUR-25

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CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

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AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL BREMEN UNN

AMCONSUL DUESSELDORF UNN

AMCONSUL FRANKFURT UNN

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SUBJECT: ECONOMIC OUTLOOK FOR 1974

REF: BONN A-169; BONN A-31; BONN 1063

1. THE PAST FEW MONTHS HAVE SEEN A GENERAL UPWARD REVISION OF

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FORECASTS FOR BOTH REAL GROWTH AND THE RATE OF INFLATION IN

GERMANY. THE GOVERNMENT HAS NOW JOINED THIS TREND. THE FOLLOWING FORECAST WAS PREPARED BY THE ECONOMIC MINISTRY (FOR A WORKING PAPER) PRIOR TO THE RECENT DEBATE ON ECONOMIC POLICY IN THE BUNDESTAG.

2. GOVERNMENT 1974 FORECASTS

(PERCENTAGE GROWTH OVER 1973)

GNP COMPONENTS: PREVIOUS REVISED

PRIVATE CONSUMPTION 8.5 10.5-11.5

PUBLIC CONSUMPTION 14-15 15-16

GROSS FIXED INVESTMENT 4-6 5-6

PUBLIC INVESTMENT 9-11 9-11

EXPORT SURPLUS (DM BILLION) (15-20) (20-24)

GNP IN CURRENT PRICES 6.5-8.5 8.5-9.5

GNP IN 1962 PRICES 0-2 2

PRICES:

CONSUMER PRICE INDEX 8-9 8.5-9.5

PRICE OF GNP 6.5-7 7-7.5

3. THIS REVISION REFLECTS A MORE RAPID INCREASE IN PERSONAL AND DISPOSABLE INCOME THAN WAS PREVIOUSLY FORECAST.

ON THE BASIS OF RECENT WAGE SETTLEMENTS THE GOVERNMENT NOW EXPECTS COMPENSATION OF EMPLOYEES TO GO UP BY 10.5 TO 11.5 PERCENT IN 1974, AS OPPOSED TO AN INCREASE OF 7 TO 8.5 PERCENT IN ITS EARLIER FORECAST. THE UNEMPLOYMENT RATE IS STILL FORECAST AT AROUND 2 PERCENT OF THE WORK FORCE.

4. THE TIME PATH NOW FORECAST FOR THE ECONOMY IS FOR THE PERIOD OF SLOW GROWTH TO COME TO AN END SOMETIME IN THE FIRST HALF, AND FOR RECOVERY TO BE WELL UNDER WAY IN THE SECOND. ALTHOUGH THE EVIDENCE IS STILL INSUFFICIENT TO COME TO A FIRM CONCLUSION, INCOMING INDUSTRIAL ORDERS FOR FEBRUARY AND JANUARY TEND TO ADD WEIGHT TO THE VIEW THAT THE DOWNSWING IN THE BUSINESS CYCLE IS APPROACHING OR HAS ALREADY REACHED ITS NADIR. NEW ORDERS RECEIVED IN FEBRUARY WERE 12.5 PERCENT ABOVE JANUARY (THE 5-YEAR AVERAGE INCREASE IS 6 PERCENT FOR THAT PERIOD) AND JANUARY-FEBRUARY NEW ORDERS WERE 6.5 PERCENT ABOVE THE NOVEMBER-DECEMBER TOTAL (5-YEAR AVERAGE: 2.5 PERCENT).

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5. TOTAL INCOMING ORDERS FOR EXPORTS IN FEBRUARY WERE 31 PERCENT ABOVE THE FEBRUARY 1973 LEVEL. THIS DEVELOPMENT IS ESPECIALLY IMPORTANT IN VIEW OF THE RECORD EXPORT SURPLUS (DM 5.1 BILLION) RECORDED IN FEBRUARY. AT THE VERY LEAST, THESE FIGURES TEND TO LEND WEIGHT TO THE FORECASTS THAT EXPORTS WILL CONTINUE TO GIVE A VERY STRONG EXPANSIONARY PUSH TO THE ECONOMY

IN 1974, AND THAT PUSH MIGHT WELL BE EVEN STRONGER
THAN WE HAVE PREVIOUSLY FORECAST.

6. THE ORDER FIGURES ALSO REFLECT A SUBSTANTIAL
INCREASE IN PRICE. THE ECONOMICS MINISTRY HAS
ESTIMATED THAT PRICES FOR GOODS INCLUDED IN THE
INDUSTRIAL ORDER INDICES WENT UP BY AROUND 4.5 PERCENT
BETWEEN THE NOVEMBER-DECEMBER AND THE JANUARY-FEBRUARY
PERIODS.

HILLENBRAND

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